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POSTAL RATE COMMISSION
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

BULK PARCEL RETURN SERVICE
EXPEDITED MINOR CLASSIFICATION CASE

Docket No. MC99-4

DIRECT TESTIMONY
OF
JENNIFER L. EGGLESTON
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Jennifer Eggleston. I joined the Postal Service in July 1997 as an Economist in the Product Cost Studies division of Product Finance, which has since be renamed the Special Studies division in the office of Activity Based Management. Since joining the Postal Service , I have been involved with many issues dealing with Parcel Post and Standard (A) parcels. I have visited several Bulk Mail facilities (BMCs), Processing and Distribution Centers (P&DCs), delivery units, and other postal facilities. My previous work includes the Bulk Parcel Return Service Cost Study provided to the Postal Rate Commission in October 1998 to fulfill the requirements of Docket MC97-4.

Before joining the Postal Service, I worked as an Economist for Research Triangle Institute (RTI), a non-profit research firm in North Carolina. I worked with two separate groups at RTI. In the environmental economics group, I was tasked with estimating the potential costs and benefits of specific government regulations. In the health economics group, my main responsibility was to perform cost and benefit analysis of new drug treatments. I also worked for one year for the Naval Center for Cost Analysis in Crystal City, VA. My main responsibility was estimating the costs of procuring weapons systems.

I earned a Bachelor's Degree in Economics from James Madison University in 1992 and a Master's degree in Economics from North Carolina State University in 1995.

PURPOSE

The purpose of this testimony is to determine if there are additional costs associated with extending the definition of Bulk Parcel Return Service (BPRS) beyond Undeliverable as Addressed (UAA) parcels to: (1) parcels that have been opened, resealed, and redeposited into the mail for return to the mailer using a BPRS return label; and (2) parcels that are found in the mailstream, having been opened, resealed, and redeposited by the recipient for return to the mailer when it is impracticable or inefficient for the Postal Service to return the mailpiece to the recipient for payment of return postage. Witness Adra discusses the reasons for extending the definition of BPRS in his testimony.

II. Introduction

Currently, a recipient of a BPRS-endorsed parcel can return the unopened parcel to the original mailer by refusing the parcel or by placing the unopened parcel into the mailstream. However, if the recipient opens the BPRS-endorsed parcel and wishes to return it to the mailer, the recipient must pay the appropriate single-piece postage.

The proposal would allow the recipient of the parcel to open the package, examine the contents, and return the parcel to the original mailer with the original mailer paying the BPRS fee to cover the cost of the parcel's return. To return the parcel, the recipient would simply reseal the parcel and place a BPRS return label on it. The label designates the original mailer as the destination. The proposal would also authorize the use of the BPRS fee in those cases in which a BPRS-endorsed parcel, which has been opened and resealed, is found in the mailstream and it is not practicable or efficient to return the parcel to the recipient for payment of return postage.¹

¹ Sending the parcel back to the recipient for postage due is a very costly undertaking. The Postal Service incurs costs associated with numerous tasks involved in collecting the postage. These tasks include separating the parcel from the mailstream, weighing and rating the parcel, and marking the parcel postage due. Next, the Postal Service
(continued...)

III. Methodology

Two issues arise when estimating the cost effects of extending the definition of BPRS to include opened and resealed parcels. The first issue is whether there are any differences in handling, and therefore in costs, between an opened and resealed BPRS parcel with a return label and a UAA BPRS-endorsed parcel. The second issue is whether there are any differences in handling, and therefore in costs, between an opened and resealed BPRS parcel without a return label and a UAA BPRS parcel.

How these parcels are handled can be discussed in the context of the five cost components in the 1998 BPRS Cost Study:

1. collection,
2. mail processing,
3. transportation,
4. postage due, and
5. delivery.

Each of these is discussed separately below.

A. Collection

Recipients wishing to return a BPRS-endorsed parcel can either leave the parcel for their carrier or simply drop the parcel into a collection box.² Although the Postal Service incurs different costs for each of these options, the manner by which the recipient chooses to put the parcel into the mailstream should not be affected by whether the

(...continued)

incurs whatever mail processing, transportation, and delivery costs are associated with returning the parcel to the original recipient. The carrier may make several attempts at trying to collect postage due on the mailpiece. With each attempt, the Postal Service incurs more costs.

² By definition, BPRS-endorsed parcels are under 1 pound and therefore can be placed into a collection box.

1 parcel has been opened and resealed or carries a label.³ Therefore, there are no
2 additional collection costs associated with extending the definition of BPRS to include
3 opened and resealed parcels.

4 5 **B. Mail Processing**

6 The two main cost drivers of BPRS parcels' mail processing costs are the machinability
7 of the parcel and the parcel's dimension and weight.⁴ By definition, BPRS parcels are
8 machinable and therefore will be processed on the parcel sorting machine (PSM).

9 Opening and resealing a parcel will not change the machinability or the dimensions and
10 weight of the parcel. Neither will placing a label on the parcel.

11
12 The only potential difference in mail processing is how the parcel is handled on the
13 PSM. For both UAA BPRS parcels and *unlabeled* opened and resealed BPRS parcels,
14 the keyer on the PSM keys the ZIP Code from the original mailer's address in the top
15 left-hand corner of the parcel. For *labeled* opened and resealed BPRS parcels, the
16 keyer does one of two things: 1) key the ZIP Code from label or 2) scan the pre-printed
17 barcode on the return label.

18
19 The one difference between UAA parcels and *unlabeled* opened and resealed parcels
20 is that the latter may have a greater probability of the return address being either
21 difficult to read or obliterated. However the BPRS cost study implicitly accounts for
22 these costs by adjusting the estimated mail processing cost by the Special Standard B

³ Although recipients could potentially take an unopened and refused BPRS-endorsed parcel or a *labeled* opened and resealed BPRS-endorsed parcel to a window, this most likely will not occur since they can leave it in their own mailbox or drop it into a collection box. A recipient who brings an *unlabeled* opened and resealed parcel to the window will be charged a single-piece rate and the parcel will no longer be considered a BPRS parcel.

⁴ A parcel's dimension has two effects on the estimated cost. The first is that the dimension of the parcel affects the machinability of the parcel. The second is that the dimension of the parcel affects how many parcels fit into a container. The smaller the dimensions of the parcel, the more parcels will fit in a container. If more parcels fit in a container, then the amount of cost allocated to each parcel is smaller. This is reflected in the BPRS cost study through conversion factors.

1 CRA adjustment factor.⁵ The CRA adjustment factor is used to account for the costs
2 that are not included in the model. Some of the activities that are accounted for by the
3 CRA adjustment factor are miskeying on the parcel sorting machine, peeling off the old
4 barcode when it covers the return address, obliterating the old barcode, and parcels
5 ending up in loops from being resent to the original address by mistake. Since Special
6 Standard B contains a lot of lightweight returns, and some of these returns will be
7 opened and resealed parcels, using the Special Standard B CRA adjustment factor
8 should account for any additional costs associated with opened and resealed parcels
9 on the PSM.⁶ Therefore the BPRS cost study already accounts for the costs of opened
10 and resealed parcels.

11
12 To the extent parcels use the proposed return labels, this could actually lead to
13 reducing the Postal Service's total incurred costs. Finding the ZIP Code to key in the
14 return address may be more costly than looking for the ZIP Code on a return label. The
15 original mailer's address is often small and difficult to read. In addition, the original
16 barcode may be covering all or part of the return address. If this occurs, the keyer will
17 have to peel off the old barcode in order to read the ZIP Code. For these reasons,
18 keying the ZIP Code from the return address in the top left-hand corner could
19 potentially take longer, and therefore be more costly, than keying the ZIP Code from a
20 return label on an opened and resealed BPRS-endorsed parcel. The potential cost
21 savings are even greater if a barcode is printed on the return label. Not only is
22 scanning a barcode less costly than keying a ZIP Code, it also eliminates the possibility

⁵ There are actually two parts to the CRA adjustment factor, a variable component which is multiplied by the estimated mail processing cost and a fixed component that is added to the estimated mail processing cost. The proportional CRA adjustment factor is used to tie the modeled cost components to those same costs components reported in the CRA. A fixed CRA adjustment factor is used to account for the cost components that are not included in the model.

⁶ For most rate cells the Standard A bulk rate is lower than the Special Standard B bulk rate. For this reason, several mailers use Standard A bulk rates for their outgoing parcels and Special Standard B rates for their returns. Therefore, a large percent of Special Standard B volume is lightweight single piece parcels and it is believed that a large proportion of these parcels is returns. Opened and resealed parcels can be found in most return mailstreams.

1 that the ZIP Code will be miskeyed. In addition, the use of a label would also help
2 prevent "looping" of parcels, which can occur when the return address is unclear.
3 Therefore all costs associated with *unlabeled* opened and resealed parcels are already
4 accounted for in the estimated BPRS cost and *labeled* opened and resealed parcels
5 may be less costly to process than UAA BPRS parcels. Therefore, there are no
6 additional mail processing costs associated with extending the definition of BPRS.

7 8 **C. Transportation**

9 UAA BPRS parcels, *labeled* opened and resealed BPRS parcels, and *unlabeled*
10 opened and resealed BPRS parcels will use the same transportation network. Distance
11 traveled and cube are the two main cost-drivers for BPRS parcels. Since both opening
12 and resealing a parcel and placing a label on the parcel do not change the distance
13 traveled or size of a parcel, all three types of parcels incur the same transportation
14 costs.

15 16 **D. Postage Due**

17 Since the BPRS fee is a per-piece fee not dependent on weight or zone, there is no
18 need to weigh and rate any type of BPRS parcel. The existence of return label or the
19 fact that a parcel has been opened and resealed will not change these procedures.
20 Therefore, there are no additional postage due costs associated with extending the
21 definition of BPRS to include opened and resealed parcels.

22 23 **E. Delivery**

24 BPRS parcels are either picked up by the mailer or delivered to the mailer by the Postal
25 Service. Since all BPRS parcels will be returned to the mailer in the same manner,
26 whether opened or unopened, whether with or without return labels, they will all incur
27 the same costs. Therefore there are no additional delivery costs associated with
28 extending the definition of BPRS to include opened and resealed parcels.

1

2 **IV. Summary**

3 There are no additional costs associated with extending the definition of BPRS to
4 include opened and resealed parcels. In fact, when these opened and resealed parcels
5 carry a label, these parcels will be less costly for the Postal Service to process.